APPENDIX A

Complaint for Damages and Injunction

1. Plaintiff is a corporation organized under the laws of Maryland.

2. Defendant United States Rubber Company is a corporation organized under the laws of the State of New Jersey, and doing business in the District of Columbia.

3. Prior to 1958, Harold G. Quase had developed and was the owner of certain systems, methods, technical know-how, and inventions relating to an underwater storage system for strategic materials, solid, liquid or gaseous, which were subsequently patented under applications filed in his name on January 12, 1959, and granted December 17, 1963.

4. During various times beginning in 1958 defendant wrongfully appropriated and utilized these systems, methods, technical know-how, and inventions, including use thereof in connection with the development of the fuel cache under Office of Naval Research Contract Nonr 2957(00). As disclosed by the defendant's report to the Government pursuant to the aforesaid Office of Naval Research contract, the defendant, as prime contractor, and Hanna Construction Company of Houston, Texas, its subcontractor, wrongfully appropriated and used the technical know-how or trade secrets of the plaintiff and the plaintiff's assignor with knowledge that the technical know-how or trade secrets were and continued to be the property of plaintiff or plaintiff's assignor. Thereafter defendant and Hanna Construction Company published and advertised to the world that the technical know-how or trade secrets thus wrongfully acquired had been conceived and/or developed by them, thereby willfully appropriating the valuable property rights of the plaintiff and plaintiff's assignor to the exclusive benefit of defendant and Hanna Construction Company.

5. On or about June, 1960 Harold G. Quase assigned all of his rights in or arising out of said systems, methods, technical know-how, and inventions, including said patents, to plaintiff, Underwater Storage, Inc., and including any rights, claims, and causes of action that he then had arising out of the aforesaid actions of defendant.

6. Defendant has failed and refused to recognize the rights of plaintiff, though requested so to do.

7. Plaintiff has been damaged by reason of the foregoing in the sum of $5,000,000.

WHEREFORE, plaintiff prays for (1) judgment against defendant for the appropriation and utilization of said systems, methods, technical know-how, and inventions in the amount of $5,000,000, (2) a declaration that plaintiff is the owner of the aforesaid systems, methods and inventions, and (3) an injunction against further appropriation or utilization thereof by defendant.

ROBERT E. SHER
MONROE OPPENHEIMER
HAROLD O. LOVRE
EDWARD G. LITTEL
Attorneys for Plaintiff
1026 Woodward Building
Washington 5, D. C.

APPENDIX B

Answer to Complaint

1. Defendant admits the allegation of paragraph 1 of the Complaint.

2. Defendant admits the allegation of paragraph 2 of the Complaint.

3. On the basis of testimony given by Harold G. Quase upon oral deposition on April 22, 1964, defendant denies the allegation of paragraph 3 that prior to 1958 Harold G. Quase had developed and was the owner of certain systems, methods, technical know-how, and inventions relating to an underwater storage system. The defendant admits that Harold G. Quase filed a United States patent application in his name on January 12, 1959 upon which a patent was issued to him on December 17, 1963, but denies that the patent was validly issued and denies that it relates to systems, methods, technical know-how, and inventions developed and owned by Harold G. Quase prior to 1958.

4. Defendant denies that at any time it wrongfully appropriated and utilized systems, methods, technical know-how, and inventions developed by Harold G. Quase. Defendant admits that it was a party to an agreement with the United States Government identified as Office of Naval Research Contract Nonr 2957(00) entitled Development of a 50,000 Gallon Submersible Fuel Cache, and that pursuant to this contract made a report to the Government dated December, 1960. The defendant denies, however, that it or Hanna Construction Company wrongfully appropriated and used technical know-how or trade secrets of the plaintiff and the plaintiff's assignor, and denies that any publications or advertisements by defendant and Hanna Construction Company included or referred to any technical know-how or trade secrets wrongfully acquired.

5. The defendant has no knowledge concerning assignments made by Harold G. Quase to plaintiff Underwater

Storage, Inc., and therefore denies the allegation made in paragraph 5.

6. With respect to the allegation made in paragraph 6 of the Complaint, the defendant admits that it has asserted consistently that the plaintiff has no grounds of complaint against the defendant.

7. The allegation of paragraph 7 is denied.

8. The alleged right of action set forth in the Complaint did not accrue within three (3) years next before the commencement of this action.

9. The Complaint fails to state a claim against defendant upon which relief can be granted.

WHEREFORE, the defendant demands that the Complaint be dismissed and that the Court award to defendant its costs and attorneys fees.

/s/ ROBERT F. CONRAD

815 Fifteenth Street, N.W.
Washington, D. C. 20005

Attorneys for Defendant

Of Counsel:

KURT SHAFFERT
ARTHUR, DRY, KALISH, TAYLOR & WOOD

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New York, N. Y.

[Proof of Service dated June 16, 1964]

APPENDIX C

Statute of Limitations
77 Stat. 510 (1963)
District of Columbia Code § 12-301

Except as otherwise specifically provided by law actions for the following purposes may not be brought after the expiration of the period specified below from the time the right to maintain the action accrues:

(1) for the recovery of lands, tenements, or hereditaments—15 years;

(2) for the recovery of personal property or damages for its unlawful detention—3 years;

(3) for the recovery of damages for an injury to real or personal property—3 years;

(4) for libel, slander, assault, battery, mayhem, wounding, malicious prosecution, false arrest or false imprisonment—1 year;

(5) for a statutory penalty or forfeiture—1 year;

(6) on an executor's or administrators's bond—5 years; on any other bond or single bill, covenant, or other instrument under seal—12 years;

(7) on a simple contract, express or implied—3 years;

(8) for which a limitation is not otherwise specially prescribed—3 years.

APPENDIX D

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

Civil Action No. 751–64

UNDERWATER STORAGE, INC., *Plaintiff*,

v.

UNITED STATES RUBBER COMPANY, *Defendant*.

Memorandum Opinion

This cause came before the Court on defendant's motion for summary judgment or in the alternative for judgment on the pleadings.

The complaint, seeking money damages and injunctive relief, was filed March 27, 1964. It alleges that at various times from 1958 forward the defendant wrongfully appropriated and used as his own certain trade secrets belonging to the plaintiff and its assignor.

The pertinent facts are that one Harold G. Quase developed an underwater fuel storage system sometime prior to 1958. In January of 1959 he filed for patents.* Subsequently the defendant United States Rubber Company entered into a Naval Research Contract (NONR 2957(00)) to develop an underwater fuel storage system for the Navy and rendered a report to the Navy under date of December, 1960 setting forth its findings. The plaintiff was made aware of the defendant's report and its contents very shortly after it was rendered to the Navy.

Plaintiff claims that the report rendered by the defendants to the Navy reveals a clear misappropriation of the

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* December 17, 1963 the Patent Office issued letters patent to Quase on his system and such patents were subsequently assigned to the plaintiff corporation.

plaintiff's ideas by the defendants and that the defendants have by subsequent publications used and claimed credit for the development of the plaintiff's ideas.

The defendant pleads the three year Statute of Limitations. If that statute is applicable it is not necessary for the Court to determine the validity of the misappropriation charge since the action would be barred in any event.

The sole issue accordingly is whether a misappropriation and possible use of a trade secret constitutes a continuing tort or whether the tort is complete at the time of the original taking of the secret.

The authorities make it clear that the tort lies in the wrongful acquisition as such and once that acquisition has been completed the tort does not continue.

Sachs v. *Cluett, Peabody & Co., Inc.*, 265 App. Div. (N.Y.) 497 (1943); see *Aktiebolaget Bofors* v. *U. S.*, 93 F. Supp. 131 (1950), affirmed 194 F. 2d 145, 90 U.S. App. D.C. 92 (1951); A.L.I. Restatement of Torts, Sec. 757.

The misappropriation alleged in this case dates back to and beyond the rendition of the report by the defendant to the Navy—more than 3 years prior to the filing of the complaint. The statute of limitations accordingly bars the action.

Accordingly defendant's motion for summary judgment shall be granted.

H. F. Corcoran
Judge

November 2nd, 1965

APPENDIX E

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 19,949

UNDERWATER STORAGE, INC., APPELLANT

v.

UNITED STATES RUBBER COMPANY, APPELLEE

On Appeal from Order and Judgment of the United States District Court for the District of Columbia

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Decided September 21, 1966

Mr. Robert E. Sher with whom *Mr. Abraham J. Harris* was on the brief, for appellant.

Mr. Robert F. Conrad, with whom *Mr. Kurt Shaffert* was on the brief, for appellee.

Before: EDGERTON, *Senior Circuit Judge,* FAHY and TAMM, *Circuit Judges.*

TAMM, *Circuit Judge:* This is a trade secret case. Appellant's complaint contends that prior to 1958 one Harold G. Quase developed an underwater system for the storage of strategic materials; that on January 12, 1959 he filed an application for a patent on this system, which patent was granted on December 17, 1963; that during various times beginning in 1958 the appellee wrongfully appropriated this system and used it as its own. Spe-

cifically the complaint alleged that appellee had wrongfully appropriated and utilized "certain systems, methods, technical know-how and inventions relating to an underwater storage system" developed by Dr. Quase. The complaint further alleged that appellee entered into a contract to develop an underwater fuel storage system for the Navy and, in December of 1960, rendered a report to the Navy setting forth its experience and findings in connection with the project. Thereafter appellee and its subcontractor allegedly published and advertised that the technical know-how or trade secrets (which appellant alleges were wrongfully acquired from him) had been conceived and/or developed by them. The complaint further alleged that in June of 1960 Dr. Quase assigned to appellant, Underwater Storage, Inc., all of his rights in or arising out of the system, including any rights, claims or causes of action that he then had arising out of the aforesaid actions of appellee. The complaint also rather vaguely alleges continuing wrongful appropriation and utilization of the systems "during various times beginning in 1958."

Appellee's answer was, in effect, a general denial of the allegations of the complaint; in addition, the appellee raised the statute of limitations of three years as a complete bar to any of appellant's claims.

Appellant filed its complaint on March 27, 1964. On April 22, 1964, appellee took the deposition of Dr. Quase. In that deposition Dr. Quase stated that a United States Navy publication issued in December of 1960 entitled "Development of a 50,000 Gallon Submersible Fuel Cache," (which describes the work performed by appellee under an Office of Naval Research contract), disclosed the information allegedly appropriated from Dr. Quase. Dr. Quase further testified that he obtained a copy of this report in January or February, 1961, and that this report convinced him, more than three years before this action was

brought, that defendant had appropriated and used his trade secrets in the performance of the contract. Dr. Quase further stated that, while he did not know how appellee obtained his secrets, the only way in which appellee could have obtained them was through a third party who, in turn, might have been a person or persons in the Office of Naval Research of the United States Navy to whom Dr. Quase alleges he entrusted this information in confidence.

Based upon this information, appellee moved for summary judgment pursuant to Rule 56, FED. R. CIV. PRO., alleging that appellant's claims were barred by the three-year statute of limitations on tort actions. In a memorandum opinion, the District Court sustained appellee's motion finding that "the misappropriation in this case dates back to and beyond the rendition of the report by the defendant to the Navy—more than 3 years prior to the filing of the complaint." In deciding this question, the District Court had characterized the issue in the case in these words:

> "The sole issue accordingly is whether a misappropriation and possible use of a trade secret constitutes a continuing tort or whether the tort is complete at the time of the original taking of the secret."

The District Court answered the issue with the statement that

> "the authorities make it clear that the tort lies in the wrongful acquisition as such and once that acquisition has been completed the tort does not continue. . . . *Sachs* v. *Cluett, Peabody & Co., Inc.*, 265 App. Div. (N.Y.) 497 (1943); see *Aktiebolaget Bofors* v. *U.S.*, 93 F. Supp. 131 (1950), *aff'd* 194 F.2d 145, 90 U.S. App. D.C. 92 (1951); A.L.I. Restatement of Torts, Sec. 757."

Appellant attacks the District Court determination in this court, alleging that the misappropriation and con-

tinuing use of a trade secret is a continuing tort with respect to which the statute of limitations is not a bar, at least as to the statutory period prior to the commencement of the action. It further alleges that the fact that the initial misappropriation may have occurred more than three years prior to commencement of the action is immaterial. Each use of the trade secret thereafter by appellee, appellant contends, constituted a new wrong that started the limitations period running anew. It alleges that the rule it argues for is found in the law of contracts and in the law of torts, in trade marks and antitrust, and in cases of personal injuries and nuisances resulting from continuing torts, and that there is no good reason for treating trade secret cases any differently from these other classes of cases.

Appellee, on the other hand, argues that because of the peculiar nature of the tort of misappropriation of a trade secret, it is by its very nature a tort completed at the time of misappropriation. This because, once the secret has been misappropriated, it is no longer in fact a trade "secret" since it has been published to persons not privy to the secret and therefore (theoretically at least) the whole world has access to it. Recovery for the misappropriation of a trade secret is based upon the use of improper means to *obtain* the secret, not upon the *use* of any particular information. Since any given information can only be wrongfully acquired once from its owner, misappropriation of a trade secret cannot be a continuing tort. Finally, appellee vigorously contends that "if it were held that the use of the published information constituted a continuing tort, the statute of limitations would never run, and an action would lie one hundred years for appellee's use of information which has long since entered the public domain."

II.

Summary judgment is properly granted when the record establishes that there is no genuine issue as to any material

fact concerning a dispositive issue in a case and that the moving party is entitled to judgment as a matter of law. Rule 56(c) FED. R. CIV. PRO. The general rule that guides the District Court in the disposition of motions for summary judgment is that the moving party has the burden of showing the absence of any genuine issues as to all the material facts applicable under his theory of law. *Evers* v. *Buxbaum,* 102 U.S. App. D.C. 334, 253 F.2d 356 (1958). Moreover,

> "one who moves for summary judgment has the burden of demonstrating clearly the absence of any genuine issue of fact, and that any doubt as to the existence of such an issue is resolved against the movant. The courts are quite critical of the papers presented by the moving party, but not of the opposing papers. *Wittlin* v. *Giacalone,* 81 U.S. App. D.C. 20, 21, 154 F.2d 20, 21 (1946). See 6 Moore's Federal Prac. (2d Ed.), pp. 2123, 2124, 2125-26.

While it is true that the ultimate question presented for our consideration and determination in this case is one of law, the foregoing principles have been set down because they are necessary predicates to several assumptions which must be made in this case before the question of law is reached. The first of these assumptions is that appellant's claim of indirect misappropriation of wrongdoing *vis-a-vis* appellee is true; the second is that there have in fact been instances *post* March 27, 1961 (three years prior to filing of the complaint) when appellee has used the wrongfully appropriated trade secret. We do not consider either of these points established on the record, but for the purposes of considering this motion we must assume them to be true.

We have considered at great length the determination reached by the District Court in this difficult case and have concluded that the issue was not properly resolved. We are of the opinion that, although it is an extremely close

question, the misappropriation and continuing use of a trade secret does constitute a continuing tort and that an injured party can recover for use during the statutory period preceding the filing of the suit, assuming, of course, that there has been use during that period.

We have considered the authorities cited by the District Court in support of its decision and have concluded that they are at best ambiguous with respect to the issue posed in this case and far from dispositive of the case itself. The first authority relied upon is *Sachs* v. *Cluett, Peabody & Co., Inc.*, 265 App. Div. (N.Y.) 497, 39 N.Y.S. 2d 853 (1943), a case also relied upon by appellee here. That case concerned the alleged misappropriation of a secret process. Although the court discussed the tort theory of breach of a confidential relationship and the nature of the property rights protected, we do not read the case as establishing that the misappropriation and continuing use of a trade secret does not constitute a continuing tort.

We have also considered in detail the three opinions in the *Aktiebolaget Bofors* v. *United States* cases, 93 F. Supp. 131 (1950), *aff'd*, 90 U.S. App. D.C. 92, 194 F.2d 145 (1951), 139 Ct. Cl. 642, 153 F. Supp. 397. While it is true that there is dictum in our decision in this case to the effect that the "tort [misappropriation of a trade secret] lies in the wrongful acquisition," such was stated in the course of determining that the unauthorized use alleged there could only have been in violation of a contract and not as a tort by the United States and that jurisdiction would therefore lie only in the Court of Claims. The opinion does not attempt to resolve the question posed in this case. (In point of fact, the three *Bofors* cases read in conjunction actually provide analogical support for appellant's contentions since the Court of Claims held there that even though the original appropriation of the secret occurred more than ten years prior to the filing of the action, the plaintiff could recover for damages it suffered

during the six-year statutory period of limitation prior to the filing of the petition in the Court of Claims.)

The final authority relied upon in the District Court opinion and by appellee here is Section 757 of the Restatement of Torts (1939 ed.). Our examination of the Restatement leads us to a conclusion contrary to that reached below. We do not read the pertinent section as addressing itself to the question of whether subsequent use of a misappropriated trade secret constitutes a continuing tort. What little light the Restatement sheds on the question considered here reflects more in favor of appellant's position than that of the appellee's. Subsection c of Section 757, entitled *Disclosure or Use* states that "the rule stated in this Section protects the interest in a trade secret against both disclosure and *adverse use.*" (Emphasis added.) Appellant is, in fact, alleging adverse use of a continuing nature and we do not read the Restatement as erecting any bar to recovery for such.

After a thorough review of the authorities cited by the District Court and the parties in this court, and after an in-depth search of our own, we confess that we have not been able to unearth dispositive precedent on the point in issue. It is therefore necessary in the resolution of the question to examine the nature of the tort with which we are concerned, treatment of the issue in analogous contexts, and the policy reasons underlying the competing positions of the parties.

The nature of a trade secret is such that, so long as it remain a secret, it is valuable property to its possessor who can exploit it commercially to his own advantage. Once the secret is published to the "whole world," however, it loses its protected status and becomes available to others for use and copying without fear of legal reprisal from the original possessor. Appellee argues that because the secret is destroyed upon publication, there can be no recovery by the original possessor against subsequent

users since whatever exclusive rights the original possessor had in the secret *qua* secret cease to exist upon publication. Those using the secret thereafter cannot be sued for invasion of the rights of the possessor of the secret because there was no secret left to be invaded. Thus the idea of a continuing tort for use of a secret after publication is said to be alien to a trade secret case, and appellant is therefore barred to maintain this action since the alleged misappropriation (by appellant's own admission) took place more than three years prior to the institution of this action.

Insofar as appellee's argument extends to parties who are not misappropriators in the first instance, or possessors of the secret by virture of learning it from the misappropriator(s) with knowledge that it was stolen, we believe this argument to have merit. However, the fault in appellee's reasoning lies in its applying as a test to its own actions the rights of appellant as against the public generally (*id est,* those who have acquired the secret after publication), instead of considering the rule which should obtain between the original possessor and the misappropriator or those who have received the secret from the misappropriator with knowledge of the wrongful appropriation. We do not believe that a misappropriator or his privies can "baptize" their wrongful actions by general publication of the secret. Nor do we believe that the fact of the destruction of the secret prevents the continued use by the misappropriator or his privies from being a continuing wrong *vis-a-vis* the original possessor of the secret. It is the continuing use of another's secret, wrongfully obtained, or used after knowledge that it has been wrongfully obtained, that makes the tort a continuing one. Once the secret is out, the rest of the world may well have a right to copy it at will; but this should not protect the misappropriator or his privies. Their gain is ill-gotten and the passage of time or publication to the rest of the world should not serve to cleanse their hands. See

International News Serv. v. *Associated Press,* 248 U.S. 215, 239 (1918).

Appellant has cited in support of its argument numerous cases from other areas of law holding in general that the statute of limitations begins to run anew with each new invasion of a subsisting right of another. It would serve no purpose for us to specifically analyze these cases in detail here—suffice it to say that we agree with appellant that, with respect to their specific subject areas of the law, they stand for the proposition that a cause of action for each invasion of the plaintiff's interest arose at the time of that invasion and that applicable statute of limitations ran from that time and not from the time of the first invasion. These cases provide strong analogical support for the rule argued for in the instant case by appellant and appellee has not persuaded us to the contrary.

Finally, we have examined the competing policy considerations urged by the parties and have concluded that the balance must be struck in favor of those argued for by appellant. We believe the rule should be that in trade secret cases where the secret has been misappropriated the wrongdoer and his privies are amenable to suit for any use of the secret so long as the use has occurred within the statutory period of limitations immediately preceding the bringing of the action.

For all of the foregoing reasons, the decision of the District Court is reversed. Appellee will, of course, still have available all of its defenses, including its argument that it developed the system independently of any knowledge of appellant's system and/or that there has been no use of the system during the statutory period extending backward in time three years prior to the institution of this action.

So ordered.

APPENDIX F

Restatement, Torts

§ 757. Liability for Disclosure or Use of Another's Trade Secret—General Principle.

One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if

(a) he discovered the secret by improper means, or

(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or

(d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

Comment:

a. Rationale. The privilege to compete with others (see § 708, vol. III) includes a privilege to adopt their business methods, ideas or processes of manufacture. Were it otherwise, the first person in the field with a new process or idea would have a monopoly which would tend to prevent competition. This privilege has some limitations, however. In the first place, in order to promote the progress of science and the useful arts, patent and copyright laws provide protection to the originator. The patent laws prohibit the witting or unwitting manufacture, sale or use by any person of a device, process or article which infringes a patent granted to another. The copyright laws prohibit the plagiarism of a work copyrighted by another. The protection afforded by both types of legislation is limited to a fixed number of years. Both types of legisla-

tion establish a monopoly for the purpose of encouraging invention and art. In the second place, the law of torts prohibits copying in a manner which creates in the market avoidable confusion of commercial source. The privilege to copy is not a privilege to palm off one's goods as those of another. Thus, when the physical appearance of one's goods has acquired in the market a significance as identifying the goods of which he is the commercial source, another may not copy that appearance if it is non-functional, and if it is functional, he may copy it only upon taking reasonable precaution to avoid confusion (see § 741, vol. III). The rule stated in this Section is a further limitation on the privilege to copy when the thing copied is a trade secret. This limitation is not imposed because of any difference in function or value between trade secrets and other devices or processes. A formula for a medicinal compound or a process of manufacture is equally effective in making its product when the formula or process is generally known as when it is secret. Its original discovery may require equal ingenuity and labor when it must necessarily be disclosed by the product which results from it as when it can be kept secret. Exclusion of others from the privilege of using it will give it the same value to the originator in the one case as in the other. Indeed, a patent monopoly is granted only upon full disclosure of the subject matter of the patent. The significant difference of fact between trade secrets and processes or devices which are not secret is that knowledge of the latter is available to the copier without the use of improper means to procure it, while knowledge of the former is ordinarily available to him only by the use of such means. It is the employment of improper means to procure the trade secret, rather than the mere copying or use, which is the basis of the liability under the rule stated in this Section.

There is considerable discussion in judicial opinions as to the basis of liability for the disclosure or use of another's trade secrets. Analogy is sometimes found in the

law of "literary property," copyright, patents, trademarks and unfair competition. The suggestion that one has a right to exclude others from the use of his trade secret because he has a right of property in the idea has been frequently advanced and rejected. The theory that has prevailed is that the protection is afforded only by a general duty of good faith and that the liability rests upon breach of this duty; that is, breach of contract, abuse of confidence or impropriety in the method of ascertaining the secret. Apart from breach of contract, abuse of confidence or impropriety in the means of procurement, trade secrets may be copied as freely as devices or processes which are not secret. One who discovers another's trade secret properly, as, for example, by inspection or analysis of the commercial product embodying the secret, or by independent invention, or by gift or purchase from the owner, is free to disclose it or use it in his own business without liability to the owner. As to the liability of one who procures the secret from a third person without notice of any impropriety in the third person's disclosure of it, see § 758. As to the procurement of information other than trade secrets, see § 759. For a definition of trade secrets, see Comment *b*.

The protection afforded by the rule stated in this Section is in some respects greater and in some respects less than that afforded by the patent law. It is greater in that it is not limited to a fixed number of years and does not require novelty and invention as in the case of patents (see Comment *b*). It is less in that secrecy of the process and impropriety in the method of procuring the secret are requisite here but not in the case of patents.

b. Definition of trade secret. A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a

chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see § 759) in that it is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management.

Secrecy. The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is

one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Novelty and prior art. A trade secret may be a device or process which is patentable; but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make. Novelty and invention are not requisite for a trade secret as they are for patentability. These requirements are essential to patentability because a patent protects against unlicensed use of the patented device or process even by one who discovers it properly through independent research. The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret. For this limited protection it is not appropriate to require also the kind of novelty and invention which is a requisite of patentability. The nature of the secret is, however, an important factor in determining the kind of relief that is appropriate against one who is subject to liability under the rule stated in this Section. Thus, if the secret consists of a device or process which is a novel invention, one who acquires the secret wrongfully is ordinarily enjoined from further use of it and is required to account for the profits derived from his past use. If, on the other hand, the secret consists of mechanical improvements that a good mechanic can make without resort to the secret, the wrongdoer's liability may

be limited to damages, and an injunction against future use of the improvements made with the aid of the secret may be inappropriate.

Information not a trade secret. Although given information is not a trade secret, one who receives the information in a confidential relation or discovers it by improper means may be under some duty not to disclose or use that information. Because of the confidential relation or the impropriety of the means of discovery, he may be compelled to go to other sources for the information. As stated in Comment *a*, even the rule stated in this Section rests not upon a view of trade secrets as physical objects of property but rather upon abuse of confidence or impropriety in learning the secret. Such abuse or impropriety may exist also where the information is not a trade secret and may be equally a basis for liability. The rules relating to the liability for duties arising from confidential relationships generally are not within the scope of the Restatement of this Subject. As to the use of improper means to acquire information, see § 759.

c. Disclosure or use. One who has a trade secret may be harmed merely by the disclosure of his secret to others as well as by the use of his secret in competition with him. A mere disclosure enhances the possibilities of adverse use. The persons to whom the disclosure is made may or may not be liable under Clause (c) for the subsequent use (see also § 758). Since a trade secret is vendible and since its sale value depends in part upon its secrecy, a mere disclosure may reduce the vendibility or sale value of the secret. The rule stated in this Section protects the interest in a trade secret against both disclosure and adverse use.

The duties not to disclose and not to use another's trade secret are not, however, necessarily concomitant, though they are frequently found together. Thus, a former employee to whom the secret was communicated in the course of his employment may be under both duties (see Restate-

ment of Agency, §§ 395 and 396). On the other hand, a manufacturer who is permitted by the owner of the secret to use it in his manufacturing may be subject only to a duty not to disclose the secret to third persons. Or the manufacturer may be permitted to use the secret only in the manufacture of products for the owner, with a duty not to disclose the secret or use it in the manufacture of products on his own account or for others.

Modification or improvement of the secret by the actor. To subject a person to liability, under the rule stated in this Section, for the use of another's trade secret, there is no requirement that he use it in exactly the form in which he received it. He may be liable even if he uses it with modifications or improvements upon it effected by his own efforts. Differences in detail do not preclude liability if, substantially, the process used by the actor is derived from the other's secret in the manner stated in this Section. The liability is avoided only when the contribution by the other's secret is so slight that the actor's process can be said to be derived from other sources; although even in such a case the actor is still subject to liability for harm caused by his disclosure or possession of the secret, under the rules stated in §§ 757-759. The extent of the modifications or improvements made by the actor upon the other's secret may, however, affect the computation of damages or profits for which he is liable to the other.

d. Privilege. A privilege to disclose or use another's trade secret may arise from the other's consent or from other conduct on his part by which he is estopped from complaining. A privilege to disclose may also be given by the law, independently of the other's consent, in order to promote some public interest. Thus, a witness who is compelled by law to answer a question which calls for a disclosure of the secret is not liable for making the disclosure in his answer. Or the privilege may be given to protect an interest of the actor, as, for example, when disclosure may

be necessary to defend a charge of infringement. In order to protect trade secrets against disclosure in the course of litigation, testimony involving such disclosure is generally taken by the court privately rather than in public and the record of such testimony is appropriately safeguarded against public disclosure.

e. Remedies. One who has a right under the rule stated in this Section is entitled to a remedy or remedies appropriate under the circumstances. He may recover damages for past harm, or be granted an injunction against future harm by disclosure or adverse use, or be granted an accounting of the wrongdoer's profits, or have the physical things embodying the secret, such as designs, patterns and so forth, surrendered by the wrongdoer for destruction. Moreover, he may have two or more of these remedies in the same action if the court is competent to administer them. Defenses generally available in tort actions and actions for injunctive relief are also available here, insofar as they are applicable.

Comment on Clause (a):

f. Improper means of discovery. The discovery of another's trade secret by improper means subjects the actor to liability independently of the harm to the interest in the secret. Thus, if one uses physical force to take a secret formula from another's pocket, or breaks into another's office to steal the formula, his conduct is wrongful and subjects him to liability apart from the rule stated in this Section. Such conduct is also an improper means of procuring the secret under this rule. But means may be improper under this rule even though they do not cause any other harm than that to the interest in the trade secret. Examples of such means are fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage. A complete catalogue of improper means is not possible. In general they are means which fall below the generally accepted standards

of commercial morality and reasonable conduct. See also, § 759, Comment *c*.

g. Actor's purpose. Liability under the rule stated in this Section is based not on the actor's purpose to discover another's trade secret but on the nature of the conduct by which the discovery is made. The actor is free to engage in any proper conduct for the very purpose of discovering the secret. So long as his conduct is proper, his purpose does not subject him to liability. Conversely, if his conduct is improper, he is subject to liability even though he engaged in the conduct for a purpose other than that of discovering the trade secret.

Illustrations:

1. A wishes to recover from B amorous letters sent to B by A's wife. Learning that the letters are in a safe in B's office, he breaks into the safe at night and removes a bundle of papers which he believes to be the desired letters. When he examines the bundle at his own office, he finds that it contains the secret formulas for the compounds which B markets. Fearing that a return of the papers might disclose his crime, he keeps them. Three months later he begins to manufacture compounds on the basis of the stolen formulas. A is liable to B under the rule stated in this Section.

2. A manufactures and sells a medicinal compound from a formula which is his trade secret. B wishes to manufacture and sell the same compound. He engages competent technicians to discover the formula. By scientific analysis of and experimentation with A's compound, the technicians do discover the formula. B then begins to manufacture and sell a compound made in accordance with the formula. B is not liable to A under the rule stated in this Section.

h. Improper means employed against third person. The rule stated in Clause (a) of this Section applies to im-

proper means in procuring the secret not only from the owner but also from any third person holding the secret under a duty to the owner not to disclose it to others. Thus, the rule applies to a theft of the secret from an employee of the owner or from a post office or a bank, or from any other person to whom the secret was entrusted in confidence. If the actor procures the secret by a voluntary disclosure by such third person in breach of his duty and the actor employs no improper means to cause the disclosure, he is not subject to liability under the rule stated in Clause (a), though he may be liable under the rule stated in Clause (c). But if the actor intentionally procures the third person to make a disclosure in breach of his duty, the actor may be liable under both rules; under the former because inducing one to commit a breach of duty is an improper means of procuring the secret; and under the latter because of the actor's knowledge of the breach.

i. Procuring third person to employ improper means. The rule stated in Clause (a) applies to the case in which the actor procures a third person to discover the secret by improper means, as when A hires B to steal a trade secret from C's safe. If, however, A does not authorize the use of improper means, he is subject to liability only under the rule stated in Clause (c).

Comment on Clause (b):

j. Breach of confidence. A breach of confidence under the rule stated in this Clause may also be a breach of contract which subjects the actor to liability under the rules stated in the Restatement of Contracts. But whether or not there is a breach of contract, the rule stated in this Section subjects the actor to liability if his disclosure or use of another's trade secret is a breach of the confidence reposed in him by the other in disclosing the secret to him. The chief example of a confidential relationship

under this rule is the relationship of principal and agent (see Restatement of Agency, §§ 395 and 396). Such is also the relationship between partners or other joint adventurers. But this confidence may exist also in other situations. For example, A has a trade secret which he wishes to sell with or without his business. B is a prospective purchaser. In the course of negotiations, A discloses the secret to B solely for the purpose of enabling him to appraise its value. Or, A requests a loan from B, a banker, for the purpose of aiding the manufacture of a product by A's secret process. In order to assure B about the soundness of the loan, A discloses the secret to him in confidence. In both cases B is under a duty not to disclose the secret or use it adversely to A. Again, this confidence may exist even when no business relation between A and B exists or is contemplated, as when A comes to B, his former teacher, for free advice which B is willing to give with respect to the secret and discloses the secret to him in confidence. But in all these cases A cannot impose a confidence on B without B's consent. If A discloses the secret to B despite B's protest that he does not wish to hold it in confidence and will not so hold it if it is disclosed, the confidence requisite for liability under the rule stated in Clause (b) does not arise. Likewise, the confidence does not arise if B has no notice of the confidential character of the disclosure. But no particular form of notice is required. The question is simply whether in the circumstances B knows or should know that the information is A's trade secret and that its disclosure is made in confidence. As to disclosure by mistake see Comment *o*.

Comment on Clause (c):

k. Limitations of Clause (c). This Clause applies only to the cases in which the actor has the stated notice when he first learns the secret. For the rules relating to cases in which he acquires the notice after he learned the secret,

see § 758. Again, Clause (c) deals primarily with the situations in which the actor does not knowingly procure the third person to use improper means or to violate his duty otherwise. But such cases are not excluded from this Clause, and the rules stated in both this Clause and Clause (a) may be applicable to them.

l. What is notice. One has notice of facts under the rule stated in this Section when he knows of them or when he should know of them (see Restatement of Trusts, § 297). He should know of them if, from the information which he has, a reasonable man would infer the facts in question, or if, under the circumstances, a reasonable man would be put on inquiry and an inquiry pursued with reasonable intelligence and diligence would disclose the facts. One may have notice of a fact because he has been given a notification of it. Under the rule stated in the Restatement of Agency, § 9, a person is given notification of a fact by another if the latter (a) informs him of the fact or of other facts from which he has reason to know or should know the fact, or (b) does an act which, under the rules applicable to the transaction, has the same effect on the legal relations of the parties as the acquisition of knowledge. Notification by the second method includes, for example, recordation, which is generally not applicable to the situation dealt with in this Section, and delivery of a letter to a person's office where it is subsequently lost without having been read by him (see Restatement of Agency, § 9, Comments *e-g* and § 11).

Illustrations:

3. A and B are competitors. A knows that B has a secret process for treating his goods which reduces his manufacturing costs by 7 per cent. C comes to A and offers to sell him B's secret. A does not know C and does not know how C discovered the secret. On these facts a finding that A has notice that C's disclosure is in breach of his duty is proper.

4. A and B are competitors. C is, to A's knowledge, a trusted employee of B. C comes to A and offers to sell him a process for treating his goods. A does not know that the process is B's trade secret but he does know that there are several trade secrets employed by his competitors and that the process offered by C is novel to A and is valuable for the businesses of both A and B. On these facts a finding that A has notice that the process is B's trade secret and that C is disclosing it in breach of duty is proper.

m. Notice of secrecy and of breach of duty. The actor is subject to liability under the rule stated in this Clause only if he has notice of both the fact that the information is secret and the fact that the disclosure by the third person is a breach of his duty. But frequently the two facts are mutually dependent and notice of the one is also notice of the other. Thus, if the actor knows that the information proffered to him by one person is the trade secret of another he is put on inquiry as to the former's authority to disclose the information (see Comment *l*, Illustrations 3 and 4).

n. Third person's breach of duty. The breach of duty by the third person under the rule stated in this Clause is a breach which subjects him to liability for disclosing the trade secret. His duty not to disclose may arise out of a contract made by him or it may be based on the rules stated in Clauses (a), (b) and (d) of this Section.

Illustrations:

5. A, who knows B's trade secret, makes a contract with B not to disclose it. Later A discloses the secret to C, who knows or should know of the contract. If C subsequently discloses or uses the secret, he is subject to liability to B under the rule stated in Clause (c).

6. A steals B's trade secret from B's safe and sells the secret to C, who has notice of the facts. If C subsequently discloses or uses the secret, he is subject to liability to B under the rule stated in Clause (c).

7. B communicates his trade secret to A in confidence under such circumstances that A is under a duty not to disclose or use the secret. A subsequently discloses the secret to C, who has notice of the facts. C later discloses or uses the secret. C is subject to liability to B under the rule stated in Clause (c).

8. A learns B's trade secret by reading a letter mistakenly delivered to him. A knows of the mistake and realizes that the information is B's trade secret. Later A discloses the secret to C, who has notice of the facts. C then discloses or uses the secret. C is subject to liability to B under the rule stated in Clause (c).

Comment on Clause (d):

o. Knowledge of secret acquired by mistake. In the situations covered by Clause (d), the actor need not be guilty of improper conduct in discovering the secret. If he makes the mistake, as, for example, in opening a letter not addressed to him, his mistake may be innocent or careless. Or the mistake may be made by another person, as, for example, in addressing the letter to him when someone else is intended. However the mistake is committed, if the actor has notice that the information is disclosed to him by mistake and that it is another's trade secret, good faith requires that he do not take advantage of the mistake and he is under a duty not to disclose or use the secret.